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SUBJECT: THE POLITICS OF IRANIAN NATURAL GAS

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CLASSIFIED BY: Jillian Burns, Director, Iran Regional Presence
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REASON: 1.4 (d)

1.(S//NF) Summary: Iran has oversubscribed its natural gas commitments by 20%, given current extraction and transportation capabilities, according to a reliable Iranian energy analyst. He added that Iran and UAE's Dana Gas still have not agreed on a pricing structure for Iranian natural gas (ref A). Deputy Oil Minister Ali Kordan's lack of experience is reportedly to blame for the bungled renegotiation of the Iran-Turkmenistan gas contract (ref B,C,D). The resulting gas shortages during the winter months may have cost President Ahmadinejad some support among his base, although the government attempted to shift blame to internal enemies. The analyst argued that Iran is not seriously contemplating a gas OPEC and that statements to that effect are part of a greater public relations strategy to retain Russian support for Iran's nuclear program while it competes with Gazprom for the European market. He said Iran's February 2008 deal with the State Oil Company of Azerbaijan to receive gas in exchange for Iranian deliveries to the Nakhichevan exclave is simply a gas swap with little net gain for Iran. Iran is seeing a greater advantage in providing power to regional power grids as opposed to exporting its gas resources, claimed the analyst. It is possible that Iran oversubscribes its gas deals because it knows some deals will die from external pressure (as well as internal mismanagement). The winter's gas shortage could cost allies of the president votes in this week's parliamentary elections, unless Iranians buy the conspiracy theory spread by the government blaming other factions. End Summary.

Iran over-commits gas resources

2.(S//NF) A reliable energy analyst from Tehran claimed in a conversation with IRPOffs March 9 that Iran has oversubscribed its gas domestic and export commitments by 20%, given current extraction and transportation capabilities. He said this was their finding in a recent study his company did for a European client considering investment in Iran's natural gas industry. The analyst claimed that former Deputy Oil Minister for

International Affairs Mohammed Hadi Nejad Hosseinian told him recently that he believed Iran has over committed its gas exports by 1.5 times its actual capabilities. (Bio note: Hosseinian was also Iran's Ambassador to the UN prior to Javad Zarif. Endnote) Although the analyst did not blame oversubscription for some of the protracted gas contract negotiations Iran is involved in, he noted that Iran and UAE's Dana Gas still have not agreed to pricing terms (ref A).

Iran, Turkmenistan gas deal

3.(S//NF) The analyst also claimed that the shut-off of Turkmen gas exports to Iran since 29 December 2007 is a result of Deputy (so called Acting) Oil Minister Ali Kordan's lack of energy experience and inept negotiation strategies (ref B,C,D). Kordan reportedly got his current position because of his close ties to the president, not his qualifications. The analyst said that just prior to the expiration of the previous Iran-Turkmenistan gas contract, Iran sent Kordan to Ashgabat to work out the terms of a new deal. When Turkmenistan asked Iran to match a much higher price offer from Russia, Kordan reportedly insisted on a price far below market value. Turkmenistan declined the offer. (Bio Note: Ali Kordan was appointed Deputy Oil Minister in October 2007. His previous positions include: Deputy Labor Minister, President of Iran's Technical and Vocational Organization, Deputy Head of the Islamic Republic of Iran Broadcasting (IRIB) Provincial and Parliamentary Affairs, Deputy Culture and Islamic Guidance Minister for Administrative and Financial Affairs. Endnote)

4.(S//NF) The resulting gas shortages in harsh winter weather negatively impacted President Ahmadinejad's popularity among the lower class, traditionally his base of support, according to the analyst. The source said this was the most direct impact of government mismanagement that people in remote provinces had felt. He added that Iranian government spokesman Elham had

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publicly blamed domestic Iranian politics for the breakdown of negotiations. According to a Tehran reformist daily, Aftab-e Yazd, Elham said February 6, "Some currents within the country have formed a financial partnership with Turkmenistan and, in order to achieve their political and personal interests, they have tried to put the people under pressure by cutting Turkmenistan's gas supply in the recent period of unprecedented cold weather. The Intelligence Ministry is currently looking into this matter." The analyst felt Elham's remarks were a veiled attempt to accuse Assembly of Experts head Rafsanjani of secretly maneuvering to kill the deal to embarrass the

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president.

5.(U) Despite the fact that Turkmenistan has yet to resume gas exports to Iran, a March 8 article from the Iranian Students News Agency (ISNA) reported that Turkmenistan plans to expand its oil, gas and petrochemical industries through a contract with Iran. According to ISNA, Turkmen President Berdimuhamedov asked his country's oil and gas industry to sign a \$29 million contract with Iran's Pars Energy Company, allowing Pars to develop Turkmenistan's oil and gas industry.

Iran, Russia gas relations

6.(S//NF) When asked how Iran is managing its relationship with Russia, given the fact that on one hand it is looking for Russian backing to its nuclear program and on the other, it is trying to break Gazprom's stronghold over the European market, the analyst claimed that Iran puts on a show to keep Russia happy. Specifically, he said, Iran has no interest in forming a gas OPEC with Russia but makes statements of interest to woo the Russians. The source said that in general, Gazprom-Iranian

relations are sensitive. Russia would like Iran to focus on supplying the eastern market and leave Europe to Gazprom. In light of this, it is noteworthy that in mid-February 2008, Iranian Oil Minister Nozari announced that Gazprom and Iran decided to jointly develop several phases of Iran's South Pars gas field. While final agreements have not been signed, the two sides are reportedly in the process of concluding a deal. The announcement came just one week after Iran had announced, what Russian press termed an "unpleasant surprise for Moscow," its possible participation in the Georgia-Ukraine-EU "White Stream" gas pipeline that will transport natural gas from the Caspian via the Ukraine to Poland. Iran's Foreign Minister Mottaki had also indicated early February 2008 that Iran would potentially join the Nabucco gas project which will transport gas from Turkey to Austria.

Iran, Azerbaijan gas swaps

7.(S//NF) According to the analyst, Iran's February 2008 deal with the State Oil Company of Azerbaijan (SOCAR) to receive gas in exchange for Iranian deliveries to the Nakhichevan exclave is simply a gas swap with little net gain for Iran.

Iran sees advantages to synchronizing regional power grids

8.(S//NF) The analyst maintained that Iran has now concluded that it is more advantageous to export electricity to regional power grids than to try to export natural resources. Energy Minister Fattah said February 19 that Iran and Russia signed a MoU to synchronize their electric systems, adding that "the port systems of Iran and Russia are technically very similar so that Iran's power grid can benefit its neighbors like Turkmenistan, Azerbaijan and Armenia." Additionally, Iran is becoming an important supplier of electricity to bordering areas in Iraq.

9.(S) Comment: Perhaps because Iran knows that international pressure (as well as internal mismanagement) will end up killing some of its energy deals, it explores more export deals than it could fulfill, with current capacities. Most likely the Gazprom investment in South Pars will serve a two-fold purpose: 1) appease Russia by allowing it to become involved in Iran's gas production and therefore a background player in Iran's projected cooperation in the Nabucco and White Stream projects; and 2) give Iran's gas sector a technological upgrade, thereby reducing

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oversubscription.

10.(S) Comment continued: The results of the March 14 parliamentary elections in areas hit hardest by the gas cut-off may indicate whether allies of Ahmadinejad suffered by association. Elham's clumsy attempt to blame internal machinations for the gas cut-off seems a desperate attempt to shift blame away from the administration. That said, Iranians tend to put great stock in conspiracy theories.

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